"SUSTAINABLE BIOENERGY -- CHALLENGES AND OPPORTUNITIES"

International Conference

Friday, October 13, 2006

Altes Wasserwerk
Bonn, Germany

Roundtable 2: Trade and Finance

Prepared by

Roland R. Clarke Ph.D.
CARICOM Secretariat
Georgetown
Guyana

rclarke@caricom.org
592 222 0002 thru 9, Ext. 2631
Tuesday, November 14, 2006

INTRODUCTION

This report suggests Sustainability Criteria for the trade and finance of bio-energy developed by the Roundtable on Trade and Finance at the International Conference on Sustainable Bio-Energy – Challenges and Opportunities. The criteria include economic, environmental, and social objectives.

Within the context of trade of bio-energy, the Roundtable recognized a varied market taxonomy that includes centralized versus decentralized systems, small-scale versus large-scale systems, tradable versus non-tradable goods and services, and locally-oriented versus export-oriented goods and services.

The Roundtable recognize that this effort in only the first step in developing and reaching agreement on Sustainability Criteria for the trade and finance of bio-energy. The Roundtable also expressed the view that additional information should be gathered to help define the following: market segments; supply chains; resource options; and technology options. The data would be used to illuminate the principles and policy options identified below and move towards the goal of attaining agreement on Sustainability Criteria.

PRINCIPLES

There are several principles and issues that define conditions precedent to the development of Sustainability Criteria for trade and finance of bio-energy. These are:

- Recognition that historically, bio-energy has been the energy resource for the poor.
- Recognition that the historical experience of developing countries in renewable energy is quite extensive, and this should be used to the benefit of the North as well as the South.
- Countries should come to a common understanding with respect to bio-energy and have some common basis on which to move forward, while recognizing the differences between countries.
- Recognition that the trade and finance issues are different for the various markets sub-segments, and that market organization will be different based on a number of factors, including the technology, the country, the region and the local environment.
- International trade policy decisions should recognize the inherent characteristics of the various market sub-segments (taxonomy) for bio-energy and their respective implications for trade and finance.
- The decision to produce and/or trade bio-energy should be left to individual countries to make whatever decisions they determine to be in their national interest.
- The demand for bio-energy in all countries should be simultaneously rationalized in a manner that is sustainable for all.
- Trade of bio-fuels should occur only after local demand has been met.

- Industrialized countries should optimize their demand with the aim of reducing waste, before trade from the developing countries should occur.
- Recognition that locally oriented projects with desirable social, economic and environmental benefits, may not have any benefits for the EU Directive that prescribes the importation of bio-energy.
- Recognition that in some countries, imported petroleum products are currently subsidized and these countries may find it necessary to subsidize the early developmental stages of the bio-energy industry in order to achieve the benefits of import substitution and the saving of foreign exchange.
- Sustainability criteria for trade and finance of the oil industry should be used as a surrogate for sustainability criteria for trade and financial of the bio-energy industry.
- Recognition the negative climate change effects and human rights issues in oil producing countries.

POLICY

Certain policy directives emerged from the Roundtable. These were:

- The World Bank should include the negative external costs of the oil industry, as a direct counter to its existing policy of not funding bio-fuels because they were not “cheaper” than oil.

- The World Bank should financially support viable locally oriented projects that meet sustainability criteria.
- Export-oriented bio-energy projects that meet sustainability criteria should be considered by the World Bank for funding.
- Existing trade rules should be modified to promote technology flows and fund flows from South to North.
- Reverse flows in trade mechanisms that enhance the affordability renewable energy technology to the North should be developed.
- Simultaneous rationalization of the demand for bio-energy in all countries should be done in a manner that is sustainable for all.
- Certification, standards and corporate reporting requirements for the oil industry that are based on sustainability criteria (i.e. including economic, environmental and social criteria.) should be introduced.
- Sustainability criteria should be utilized to compare Bio-energy and petroleum based energy on an equal basis.

OBJECTIVES FOR THE TRADE AND FINACE OF BIO-ENERGY

The Roundtable considered that the objectives of trade in bio-energy are:

- To promote the use of bio-energy as a means to reduce poverty in local communities in a

sustainable manner.

- To mitigate climate change through the widespread deployment of bio-energy.
- To ensure access of bio-energy in the North, while not compromising the ability of the South to meet the demand of the North.
- To stimulate local economies to produce bio-energy in a more sustainable way, while contributing to local development.

SUSTAINABILITY CRITERIA

The Roundtable considered that the primary purpose for developing Sustainability Criteria for the trade and finance of bio-energy is to socially control the flow of funds into sustainable projects in order to achieve desirable outcomes. Sustainability criteria provide the basis for measuring achievements along desirable economic, environmental and social objectives as follows:

ECONOMIC

The economic criteria that emerged were:

- Maximize jobs in villages while reducing greenhouse gases.
- Promote the development of the bio-energy industry in such a way as to have positive

impacts on women and local job creation, while alleviating the dependence on a volatile commodity price.

- Bundle biotechnologies with other important activities such as the production and use of water.
- Utilize bio-energy to supply or increase the electricity to villages, and tie electricity production to local market activity, economic development and appropriate technology that improve the capacity of villages and utilize unskilled labor.
- Maximize the use of agricultural residue, such as rice husk and sugar cane bagasse.
- Recognize that villagers are willing to pay prices which may be higher than that conventional wisdom suggests.
- Reduce financial risk to electricity producing bio-energy projects by implementing innovative pricing mechanisms such as utility feed-in tariffs.
- Minimize the revenue risk of bio-energy projects, by preparing bankable projects that conform to the requirements of the local banking community.
- Minimize revenue risk to bio-energy projects by the use of guarantees and portfolio financing mechanisms.
- Improve the investor climate for private investors, especially when it comes to, for example, the repatriation of hard currency from the receiving country back to the country or entity supplying the investment capital.
- Devise mechanisms to include externalities in the oil sector, so as to more appropriately price bio-fuels and bio-energy.
- Consider the sustainability of fossil fuels as a direct competitor to bio-fuels.

- Increase opportunities for reverse trade, that is, supply from developing countries to industrialized countries in technology and equipment.

ENVIRONMENTAL

- Mitigate the negative climate change effects of the oil industry by developing bio-energy that meets sustainability criteria.
- Maximize the use of the Clean Development Mechanism (CDM) and other carbon trade and finance opportunities for bio-energy projects.
- Bio-energy that is based on genetic engineering is not acceptable.
- Bio-energy that is based on land conversion, i.e., the loss of the last remaining forest, is not acceptable.

SOCIAL

- Improve the living standards of poor people in developing countries, through local trade in bio-energy.
- Improve the living standards of poor people in developing countries, through the international trade in bio-energy.
- Promote the development of the bio-energy industry in such a way as to have positive impacts on women and local job creation.
- Reduce the dependence on imported oil, while alleviating its volatile commodity price.

- Require participatory approaches to policy decision making that include government, local communities, civil society and the poor.
- Improve the health conditions for women and others through the use of clean technologies e.g. cook stoves that use bio-energy.
- Mitigate the negative human rights record of the oil industry, by promoting bio-energy that meets sustainability criteria.
- Put in place a human rights certification for the oil industry.
- Increase the utilization of Civil Society as a vehicle to channel the development of the bio-energy industry.
- Promote corporate responsibility through the deployment of certification, product labeling, standards and reporting for both the oil and bio-energy industries.